

James Curtin  
CER  
The Exchange,  
Belgard Square North,  
Tallaght,  
Dublin 24.  
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Joe Craig  
Utility Regulator  
Queens House,  
14 Queen Street,  
Belfast,  
BT1 6ED.

ElectroRoute Energy Trading  
NCI Business Centre,  
Mayor Street,  
IFSC,  
Dublin 1.

Dear James, Joe,

We welcome the opportunity to respond to the SEM Forwards and Liquidity Discussion Paper. In general we believe that the paper outlines and highlights the main concerns regarding the Irish Forwards Market and are broadly in agreement with some of the solutions that are proposed.

### **Within Zone Forward and Spot Market Liquidity**

#### Lessons learned from SEM

- Are there other issues which have affected forward liquidity in SEM or any comments on the applicability of the issues identified above?
- Which issues are expected to persist with introduction of I-SEM?
- What are the priority issues to address under I-SEM and what possible solutions should be considered?

With regard to collateral and credit levels, ElectroRoute have found the bilateral sign up process to be very tedious. There are currently a lot of disinterested counterparties and some of them do not provide reciprocating collateral. Additionally, the bilateral margin requirements of 15% are exceptionally high, especially when compared with the rest of Europe where the average is 5% on collateralised exchanges. The current requirements are both overly onerous for small companies and at such a high level that larger entities, such as non-Irish utilities and banks, would not be interested in participating. This exclusion reduces market liquidity and reinforces current market power issues.

With the introduction of I-SEM, ElectroRoute expects issues regarding market power, market liquidity, collateral and credit requirements and the infrequency of trading opportunities to persist unless specific actions are taken in these areas. We believe the priority issues to be addressed are:

1. Collateral and credit requirements:
  - a. A switch to a single-sign-up, centrally cleared market would greatly reduce the current excessive and restrictive requirements.

2. Market liquidity/access:
  - a. As with collateral and credit, a switch to a centrally cleared market would greatly reduce the market access burden and hence lead to a potential increase in market participants, both large and small.
3. Market power:
  - a. As in the UK market, ESB should be required to be a market maker for the Irish market
  - b. As in other markets, such as the UK, it should be mandatory for the dominant incumbent (ESB) to be the market marker.
4. Frequency of trading opportunities:
  - a. Currently the Irish CfD session takes place every 2 weeks which isn't sufficient for a fully functioning market. However a 24/7 traded market would be excessive and counterproductive.
  - b. Having a market that operates 7am – 5pm, Monday to Friday would be optimal. At a minimum it should operate for two hours a day.

#### Specification/nature of forward products

- What forward products are expected to be needed under I-SEM?
- Should development of appropriate products be left to the market or is specification from RAs required?

ElectroRoute believes that specification from the RAs is required regarding development of the forward products. So as to better form a view on what products are required in a functioning forward market, the RAs should look at the standardised products in other European markets. Currently the Irish market contains a number of non-standardised products such as the Mid-Merit and Peak product. These bespoke products bear no resemblance to any other products in European markets and using standardised names, such as Peak, for non-standardised product is not optimal. ElectroRoute believe that at a minimum the following products would be required for a fully functioning liquid Irish market:

- Front three Months, front four Quarters, front four Seasons and front two Years
- Baseload and Peak products – A Peak product being 7am to 7pm. Equivalent to the Peak product in the UK.

### Nature of participation, including market participation obligations

- Is there a requirement for market maker arrangements? If so, what options should be considered?
- Is there a requirement for arrangements to facilitate small party access? If so, what options should be considered?

ElectroRoute strongly believe that there is a requirement for a market maker in the Irish Forwards Market. Similar to the “Big 6” in the UK market, it should be mandatory for the dominant incumbent, ESB, to offer liquidity by directing them to act as the market maker. ElectroRoute believe that the minimum market depth requirement should be 15MW offered on both the buy and sell side with a minimum clip size of 5MW and a spread of not more than 0.25 €/MWh for the front month, quarter and season. This would greatly help improve the liquidity of the market.

With regard to facilitating small parties, ElectroRoute believe that the current arrangements are not accommodating. However, utilising a single sign-up, centrally cleared exchange would be a very effective and efficient way for smaller parties to access the market. It would also mean that no specific arrangements would be required for them.

### Interactions with market power mitigation, including Directed Contracts

- What role should Direct Contracts play under I-SEM? What form should they take?
- Are market power mitigation measures needed in the forward market? If so, what options are available and how could they be applied?

ElectroRoute supports the continued use of Directed Contracts in their current form but believe that it should be carried out through the centrally cleared exchange and that any residual volumes are opened to entire the market.

Regarding market power mitigation, ElectroRoute strongly believes that additional measures are required in the forward market. ElectroRoute believe that ESB should be the made a mandatory market marker with no bilateral trading allowed. All of ESB’s trades should be contracted through the centrally cleared exchange. This will in turn increase the transparency and liquidity of the Irish market. Additionally, the market should be made aware of the hedging targets (%) for ESB’s portfolio so as to ensure that they are not financially hedged at a corporate level.

### Mediums for trade and trading institutions

- Is an I-SEM specific exchange or an I-SEM screen on an existing exchange preferable?
- What conditions are needed to support effective functioning of an I-SEM exchange?
- Should development of an exchange be left to the market or is specification from RAs required?

ElectroRoute feel that there is no need to create additional development burden by creating a specific exchange when fully functioning and efficient exchanges already exist. Hence, an I-SEM screen on an existing exchange would be the preferable option. It could also potentially increase the number of counterparties in the market. By using an existing exchange and removing the burden of registering for a new exchange, counterparties may be enticed to join the Irish market.

For an existing exchange to host an I-SEM screen which functions effectively and is commercially viable, a minimum of 8 parties would be required. With such a low number of participants and in turn low traded volumes, it may be necessary for the RAs to pay a fixed annual fee and/or slightly higher than normal transactional fees for participants so as to incentivise the exchanges to host the I-SEM screen. A recent example which highlights an appetite from exchanges for smaller markets, would be the Greek Power Futures market which is hosted by EEX.

### Factors affecting liquidity in the near-term markets

- Are there other issues which will affect liquidity in the near-term markets?

ElectroRoute feels that if all the previous points are addressed there should be no other issues which would affect liquidity in the near-term markets.

### **Cross Border Financial Instruments**

#### Design of I-SEM Financial Transmission Rights

- What are the advantages and disadvantages of FTR Options or FTR Obligations? What is your preferred approach?

At this point in time, ElectroRoute does not have a preference between FTR Options and Obligations.

- What measures need to be implemented to comply with financial regulation requirements?

ElectroRoute shares the concerns that the implications of FTRs being subject to regulation under MIFID II would be significant.

- How should transmission losses be factored into FTR design?

ElectroRoute has no opinion on how the specifics should be incorporated at this point in time but given the significantly difference losses on Moyle and EWIC appropriate consideration is required.

### Allocation

- What are the I-SEM specific issues that need to be considered in development of a Single Allocation Platform?
- Should development of allocation arrangements be left to the market or is specification from the RAs required?

Rather than leaving development of the allocation arrangement to the market, ElectroRoute believe that the RAs should ensure that arrangements are similar to those used in other EU markets. ElectroRoute believe that a single collateral source should be utilised.

### Firmness

- What are the I-SEM specific issues that need to be considered in consideration of firmness?
- Should treatment of firmness issues be left to the market or is input from RAs required?

ElectroRoute strongly believes that the interconnector outage risk should be financially held by the asset owners as they are the only ones who can manage it. Forcing asset owners to keep participants financially whole is the only way to fully align commercial interest on the interconnector and ensure that any potential outages and maintenance have minimal impact.

### Revenue Adequacy

- What are the issues relating to revenue adequacy that need to be considered?

At this point in time, ElectroRoute has no additional issues other than those highlighted.

### Market Power

- What potential market power issues are linked to FTRs? How can they be dealt with?

Given that the volume of FTRs can exceed the physical capacity it prevents the hoarding of capacity by dominant market players.

### Interaction with CFDs, Reliability Options and Renewable Certificates

- What interactions with other CfDs need to be considered in development of FTRs? What potential implications does FTR design have on these areas of interaction?

ElectroRoute believe that given renewable certificates rely on a direct link to the physical power, the financial trading proposed here would cease all renewable certificate trading.

### Transitional Arrangements

- How should transition to FTRs be managed? What requirements are there during the transition phase?

Currently participants can hold physical interconnector capacity for a couple of years ahead. There needs to be a process for managing or transferring this physical holdings once the market becomes financial. Additionally there should be no additional long-term physical auctions that extend across the transitional phase.